

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 AGRE-00 INT-05 DODE-00 PA-02 PRS-01 L-03
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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 8924
INFO AMEMBASSY NEW DELHI

UNCLAS SECTION 1 OF 2 COLOMBO 4784

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SUBJ: REVISED BUDGET ESTIMATES FOR 1978

REF: (A) COLOMBO 4452; (B) COLOMBO 4355

1. SUMMARY: A COMPARISON OF THE 1978 BUDGET ESTIMATES ISSUED BEFORE THE FINANCE MINISTER'S NOVEMBER 15 BUDGET SPEECH WITH THE CHANGES ANNOUNCED IN THE SPEECH SHOWS LARGE INCREASES IN EXPENDITURES, REVENUES, AND THE DEFICIT FOR NEXT YEAR. THE DEVALUATION OF THE RUPEE ACCOUNTS FOR ROUGHLY HALF OF THE INCREASES. AS IN 1977, FOREIGN AID WILL PROVIDE A MAJOR PORTION OF THE FINANCING TO COVER THE DEFICIT. END SUMMARY.

2. AT THE END OF HIS NOVEMBER QT BUDGET PRESENTATION (REF-TEL A), FINANCE MINISTER RONNIE DE MEL GAVE A RATHER SKETCHY DESCRIPTION OF THE CHANGES HIS BUDGET PROPOSALS WOULD HAVE ON THE PRELIMINARY ESTIMATES FOR 1978 (REFTEL B). (DETAILED BUDGET ESTIMATES FOR 1978 WILL BE PUBLISHED AND FORWARDED TO THE DEPARTMENT EARLY NEXT YEAR.)

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3. DRAWING ON THE PRELIMINARY ESTIMATES AND THE MINISTER'S BUDGET SPEECH, THE EMBASSY HAS PREPARED THE FOLLOWING TABLES SHOWING THE MOST RECENT REVISED ESTIMATES FOR 1977, AND THE PRE-AND POST-BUDGET SPEECH ESTIMATES FOR 1978 (IN MILLIONS OF RUPEES):

	I	II	II
HT	REVISED	PRE-BUDGET	POST-BUDGET

ESTIMATES ESTIMATES ESTIMATES

1977 1978 1978

SUMMARY TABLE

RECURRENT EXPENDITURES	6,145	6,674	10,070
CAPITAL EXPENDITURES	3,104	3,764	5,180
TOTAL EXPENDITURES	9,249	10,438	15,250
REVENUES	6,497	6,813	10,830
DEFICIT	2,752	3,625	4,420
FINANCING	2,752	3,625	4,420
RUPEE LOANS	1,500	N/A	1,750
COMMODITY AID	850	N/A	1,620
PROJECT AID	450	N/A	1,200
REPAYMENTS (MINUS)	48	N/A (MINUS)	150

DETAILS

RECURRENT EXPENDITURES	6,145	6,674	10,070
FOOD SUBSIDY	899	1,180	2,074
FERTILIZER SUBSIDY	65	100	530
INTEREST ON DEBT	1,020	1,131	1,441
CTB LOSSES 1/	47	--	100
CPC LOSSES 2/	75	--	400
UNEMPLOYMENT PAYMENT	--	--	645
WAGES	2,063	2,199	2,619
OTHER	1,976	2,064	2,261
CAPITAL EXPENDITURES	3,104	3,764	5,180
FOREIGN DEBT	432	395	520
DEVELOPMENT BANK	--	--	390

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BUFFER STOCK	--	--	200
OTHER	2,672	3,369	4,070
REVENUES	6,497	6,813	10,830
SALES & TURNOVER TAXES	2,083	2,212	2,382
IMPORT DUTIES	565	565	1,715
EXPORT DUTIES	470	498	4,343
FEEC'S 3/	1,150	1,300	--
CORP. INCOME TAXES	675	676	796
NON-CORP. INCOME TAXES	265	265	280
OTHER	1,289	1,297	1,314

1/ CTB--CEYLON TRANSPORT BOARD

2/ CPC--CEYLON PETROLEUM CORPORATION

3/ FEEC'S--FOREIGN EXCHANGE ENTITLEMENT CERTIFICATES

4. RECURRENT EXPENDITURES

THE RS. 3,396 INCREASE IN RECURRENT EXPENDITURES BETWEEN THE PRE- AND POST-BUDGET ESTIMATES IS DUE LARGELY TO THE UNIFICATION AND DEVALUATION OF THE RUPEE EXCHANGE RATES. ALTHOUGH THE NUMBER OF PEOPLE RECEIVING RICE AND SUGAR SUBSIDIES IS EXPECTED TO BE REDUCED BY HALF NEXT YEAR, EXPENDITURES ON FOOD SUBSIDIES ARE PROJECTED TO RISE BY RS. 894 MILLION OR 75.8 PERCENT. HOWEVER, IF THE PRE-AND POST-BUDGET ITEMS ARE

CONVERTED TO DOLLARS AT THE APPROPRIATE EXCHANGE RATES (RS 8.60 PER DOLLAR FOR PRE-BUDGET SUBSIDIES AND RS. 16.00 FOR POST-BUDGET) THE DOLLAR FIGURES SHOW A DECLINE FROM RS. 137.2 MILLION TO RS. 126.6 MILLION. THE RELATIVELY SMALL DROP IN DOLLAR TERMS IS DUE TO THE FACT THAT THE LOCAL PRICE OF FLOUR WAS NOT INCREASED IN ACCORDANCE WITH THE DEVALUATION WHICH ADDED RS. 490 MILLION TO THE COST OF SUBSIDIES. CONSUMPTION OF FLOUR, ALL OF WHICH IS IMPORTED, IS EXPECTED TO INCREASE NEXT YEAR ADDING ABOUT \$15.5 MILLION TO THE IMPORT BILL.

5. FERTILIZER SUBSIDIES ARE UP RS. 430 MILLION (430 PERCENT) AS A RESULT OF INCREASING THE SUBSIDY FROM 50 TO 75 PERCENT TO PROTECT FARMERS FROM THE EFFECTS OF THE DEVALUATION. THE RS. 310 (27.4 PERCENT) INCREASE IN THE INTEREST ON DEBT RE-
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FLECTS THE HIGHER RUPEE EQUIVALENT OF INTEREST PAYMENTS ON FOREIGN DEBT FOLLOWING THE DEVALUATION. A SIGNIFICANT BUT UNIDENTIFIABLE PORTION OF THE INCREASE IN EXPENDITURES ON LOSSES OF THE CEYLON TRANSPORT BOARD (CTB) AND THE CEYLON PETROLEUM CORPORATION (CPC) CAN BE ATTRIBUTED TO THE HIGHER RUPEE COST OF IMPORTED PETROLEUM PRODUCTS.

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-02 AGRE-00 INT-05 DODE-00 PA-02
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6. THE RS. 645 ALLOCATION FOR UNEMPLOYMENT PAYMENT IS A NEW

BUDGET ITEM TO COVER THE RS. 50 PER MONTH "ONCOME SUPPORT" ANNOUNCED BY THE FINANCE MINISTER FOR ALL UNEMPLOYED. THIS ALLOCATION INDICATES THE GOVERNMENT EXPECTS TO MAKE PAYMENTS TO 1,075 MILLION PERSONS. THE RS. 420 MILLION INCREASE IN WAGES IS DUE TO THE 25 PERCENT UP TO A MAXIMUM OF RS. 50 PER MONTH HIKE IN GOVERNMENT SALARIES. THIS INCREASE WAS MADE EFFECTIVE DECEMBER 1 AND THE FINANCE MINISTER HAS ASKED PARLIAMENT FOR A SUPPLEMENTARY APPROPRIATION OF RS. 35 MILLION TO THE 1977 BUDGET. THE FINANCE MINISTER WAS NOT SPECIFIC ABOUT THE DETAILS OF THE "OTHER" INCREASES IN RECURRENT SPENDING.

7. CAPITAL EXPENDITURES

TOTAL CAPITAL SPENDING IS PROJECTED TO INCREASE BY RS. 1,416 MILLION, OR 37.6 PERCENT. THE ONLY INCREASE IN THE CAPITAL BUDGET DIRECTLY ATTRIBUTABLE TO THE DEVALUATION IS THE RS. 125 MILLION ADDITION TO FOREIGN DEBT PAYMENTS. THE DEVELOPMENT BANK AND THE RICE BUFFER STOCK ARE NEW ITEMS. THE DEVELOPMENT BANK IS BEING ESTABLISHED WITH THE ENCOURAGEMENT OF THE IMF TO SUPPORT COMMERCIALLY VIABLE PROJECTS IN RURAL AREAS. ACCORDING TO THE FINANCE MINISTER'S SPEECH DURING THE BUDGET DEBATE (SEE COLOMBO), THE IMF WANTED RS. 3 BILLION ALLO-

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CATED TO THE BANK, BUT THE COST OF MAINTAINING RICE AND SUGAR SUBSIDIES FOR HALF THE POPULATION AND FLOUR SUBSIDIES FOR EVERYONE REDUCED THE ALLOCATION TO ONLY RS. 390 MILLION. THE BUFFER STOCK WILL BE USED TO REDUCE PRICE FLUCTUATIONS FOR DOMESTIC RICE. AS WITH RECURRENT EXPENDITURES, THE OTHER CATEGORY WAS NOT CLEARLY DEFINED.

8. REVENUES

THE RS. 4,017 MILLION (59.0 PERCENT) INCREASE IN REVENUE IS DUE ALMOST ENTIRELY TO INCREASED CUSTOMS DUTIES. HIGHER IMPORT DUTIES AND AN ANTICIPATED INCREASE IN IMPORT FLOWS FOLLOWING THE REDUCTION IN LICENSING CONTROLS ARE EXPECTED TO ADD RS. 1,150 MILLION TO DUTY COLLECTIONS. EXPORT DUTY REVENUES ARE PROJECTED TO INCREASE BY RS. 3,845 MILLION AS A RESULT OF HIGHER DUTY RATES INTENDED TO ABSORB DEVALUATION WINDFALL PROFITS ON TEA, RUBBER, AND COCONUT EXPORTS. THESE INCREASES WILL MORE THAN OFFSET THE RS. 1,300 MILLION LOSS OF INCOME FROM THE SALE OF FOREIGN EXCHANGE ENTITLEMENT CERTIFICATES (FEEC'S) WHICH WERE ABOLISHED BY THE EXCHANGE RATE UNIFICATION.

9. DEFICIT AND FINANCING

THE OVERALL INCREASE IN THE DEFICIT FROM THE PRE- TO POST-BUDGET ESTIMATES IS RS. 795 MILLION. THE PRE-BUDGET ESTIMATES DID NOT INCLUDE ANY DETAILS OF FINANCING. AS IN 1977, HOWEVER, A MAJOR PORTION OF THE FINANCING FOR THE DEFICIT IN 1978 WILL COME FROM FOREIGN AID FLOWS. IN DOLLAR TERMS (AT APPROPRIATE EXCHANGE RATES), COMMODITY AID WILL SHOW A SMALL IN-

CREASE FROM APPROXIMATELY \$99 TO \$101. PROJECT AID, HOWEVER,
IS PROJECTED TO RISE FROM ABOUT \$52 MILLION IN 1977 TO \$75
MILLION IN 1978.
WRIGGINS

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Message Attributes

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